

United States Department of Justice
William J. Leone
Acting U.S. Attorney, District of Colorado
Robert Clark Corrente
U.S. Attorney, District of Rhode Island



NEWS RELEASE

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For more information contact:
Jeff Dorschner 303-454-0243
Tom Connell 401-709-5032

RHODE ISLAND INVESTMENT ADVISOR SENTENCED TO OVER 15 YEARS IN FEDERAL PRISON FOR INVESTMENT FRAUD

DENVER – Bill Leone, Acting United States Attorney for the District of Colorado, and Robert Clark Corrente, United States Attorney for the District of Rhode Island, announced today that **DENNIS HERULA**, age 57, formerly of Warwick, Rhode Island, and Tiburon, California, was sentenced today by U.S. District Court Judge Robert E. Blackburn to serve over 15 years in federal prison for investment fraud schemes charged in both Colorado and Rhode Island. **HERULA** was also ordered to pay a total of \$14,824,933.43 in restitution to three victims, one in the Colorado case and two from the Rhode Island case. **HERULA**, who was arrested in May of 2003 in Boston living under an assumed name, remains in federal custody and will start serving his sentence immediately.

According to the plea agreement regarding the Colorado investment fraud scheme, **HERULA**, along with co-defendant **CLAUDE LEFEBVRE**, age 61, formerly of Los Angeles, California, operated a sophisticated scheme to defraud wealthy individuals. The defendants told their victims that the funds would be invested in high-yield “financial institution instruments” in a trading program that would generate profits of at least 75 percent per week. They represented that the opportunity was available only to those who could invest at least \$10,000,000.

One victim invested over \$14,000,000 and another victim and his partner invested a total of \$40,000,000. The defendants opened accounts at Merrill Lynch and then took several million dollars of the funds for their personal use before the crime was discovered and the accounts were frozen.

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During the trial of co-defendant **LEFEBVRE**, the government presented testimony that **LEFEBVRE** and **HERULA** made many misrepresentations about their plans to invest the money and also failed to inform the investors that the Securities and Exchange Commission (SEC) had sued **HERULA** on April 1, 2002 for securities fraud in federal court in Rhode Island.

On July 31, 2002 the SEC filed a civil complaint against **LEFEBVRE** and **HERULA** in federal court in San Francisco based on the conduct charged in the indictment in this case. That court froze the defendants' assets, and in April 2004 it entered a default judgment and permanent injunction against **LEFEBVRE**.

LEFEBVRE is scheduled to be sentenced on February 25, 2005 at 11:00 a.m.

In the Rhode Island case that was transferred to Colorado, **HERULA**, while based at Raymond James Financial Services in Cranston, Rhode Island, engaged in a scheme to defraud a Canadian holding company and a Louisiana couple out of a total of approximately \$13,500,000.

In March 2000, **HERULA** induced the Canadian holding company to invest \$12.5 million, which **HERULA** said would go to a company called Brite Business Corporation, purportedly to purchase high-yield Treasury Bills. Associates of **HERULA** had established Brite Business in 1999 as an entity through which to place investors' funds in purportedly high-yield investments.

Instead of investing the Canadian holding company's money, however, **HERULA** spent approximately \$8.25 million of it on personal expenses that included cars, antiques, homes in Watch Hill, Rhode Island and Tiburon, California, and a 13.56-karat diamond ring. The Canadian investor never got any of the \$12.5 million back.

HERULA admitted that he used a series of artifices to deceive the Canadian company and its principals about the status of the investment, including providing them with false account statements. The account statements purported that the \$12.5 million

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investment had been placed into an escrow account at Charles Schwab in the name of Mary Lee Capalbo, who was **HERULA**'s wife. The true balance of that escrow account never exceeded \$10.00.

In October 2000, a Louisiana-based couple invested \$1 million with **HERULA**, based on **HERULA**'s description of a high-yield Private Placement Program. **HERULA** never invested any of the couple's money but instead spent about \$400,000 of it on personal items, including a \$200,000 Bentley automobile. He also paid the couple back with some of their original principal, describing it as interest.

As he did with the Canadian holding company, **HERULA** made a series of misrepresentations to the couple about the status of their investment, including a representation that the \$1 million had been placed into the Capalbo escrow account at Charles Schwab.

HERULA also admitted that he concealed approximately \$100,000 in assets from the U.S. Bankruptcy Court in Providence after filing for bankruptcy in 2002. The assets he concealed included a \$75,000 note he held after selling the condominium in Tiburon, California, and \$25,000 in proceeds from the sale of antiques.

"We are very pleased that the court recognized the seriousness of this elaborate financial crime," said Acting United States Attorney Bill Leone. "Fraud and deceit on investors, contempt for the SEC's rules and procedures, and diversion of investor money to personal use threatens our quality of life. It discourages investment, diverts investment capital from legitimate enterprises, and tarnishes the reputation of legitimate business people."

Rhode Island U.S. Attorney Robert Clark Corrente said, "White-collar criminals who use other people's hard-earned money to finance their own fantasy lifestyles deserve sentences every bit as stiff as those imposed on common thieves. We hope that this long prison sentence and the nearly \$15 million restitution order will remind financial professionals of the consequences of uncontrolled greed."

The **HERULA** and **LEFEBVRE** case was investigated in Colorado by the U.S. Postal Inspection Service and the Federal Bureau of Investigation. In Rhode Island the

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case was investigated by the Federal Bureau of Investigation and the Internal Revenue Service, Criminal Investigation, with assistance from the United States Bankruptcy Trustee.

The case was prosecuted in Colorado by Assistant United States Attorneys Linda Kaufman and Michael Theis. The case in Rhode Island was handled by Assistant U.S. Attorney Dulce Donovan.

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